

Executive Summary

Board of Governors Meeting, September 23, 2020

Directors and Officers Liability Insurance

Topic

Citizens is requesting approval to contract for Directors and Officers Liability Insurance for a one-year policy term. The proposed coverage is through one primary policy and two excess policies for a total aggregate limit of \$20 million. Primary coverage is through Starr Surplus Lines Insurance Company for \$10 million in coverage. Excess coverage is through Argonaut Insurance Company and QBE Insurance Corporation for an additional \$5 million of coverage each.

History

Citizens has purchased Directors and Officers Liability Insurance on an annual basis for more than five years. This coverage provides liability insurance payable to the directors and officers of a company, or to the organization itself, to cover damages or defense costs in the event that such losses are incurred as a result of a lawsuit or alleged wrongful acts while acting in their capacity as directors and officers for the organization. Directors and Officers Liability insurance is supplemental to the principal protections against liability for Citizens and its Board members, officers, and employees. The principal protections are statutory immunity and indemnification afforded under Citizens' Plan of Operation. Directors and Officers Liability Insurance reimburses losses and defense costs for covered losses to Citizens, or to covered individuals when such individuals are not indemnified.

These policies include a total of \$20 million in coverage. Primary coverage is provided through Starr Surplus Lines Insurance Company with a \$10 million aggregate limit. This primary policy includes a \$225,000 retention for a claim against Citizens or a covered individual who is indemnified by Citizens. It includes a \$0 retention for a covered individual who is not indemnified by Citizens. The policy also includes a \$1 million sublimit and a \$5,000 retention for fiduciary liability claims, such as an alleged breach of responsibilities relating to an employee retirement plan.

An additional \$10 million in coverage is provided through the two proposed excess policies. The first \$5 million in additional coverage is through Argonaut. The second \$5 million of coverage is through QBE Insurance Corporation. Citizens has purchased its primary Directors and Officers policy from Starr since 2015, and an excess layer from Argonaut since 2017. QBE is a new carrier for Citizens.

This coverage will be purchased through Arthur J. Gallagher and Co., who will serve as agent of record for the policies. Citizens conducted a competitive solicitation for this coverage through Invitation to Negotiate No. 20-0033 for Directors and Officers/Fiduciary Liability Insurance issued on July 7, 2020. This coverage-specific approach to procuring insurance was a change in approach for Citizens. Citizens has historically conducted a competitive solicitation

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for one insurance broker of record who solicited all business insurance policies. While several brokers expressed interest during the questions and answers phase of the ITN, Arthur J Gallagher was the only broker to submit a reply.

Citizens determined that negotiating on best terms and conditions with Arthur J Gallagher was in the best interest of Citizens and the state, pursuant to s. 287.057(5), F.S. Arthur J Gallagher provided a summary of its quote requests to 30 carriers. Most of these carriers declined to quote citing various reasons such as level of exposure in Florida and Citizens' line of business. Furthermore, Citizens' understanding is that business insurance carriers do not generally provide multiple quotes for the same risk. Therefore, if an additional broker requested a quote from the same carrier as Arthur J Gallagher, the carrier would likely have declined and indicated that a quote has already been provided to another broker.

The total cost of coverage is \$261,476, consisting of \$172,764 for Starr, \$51,823 for Argonaut, and \$36,889 for QBE. The cost for this coverage increased approximately 13% from last year.

Recommendation

Staff proposes that the Board of Governors:

- a) Authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2020 and ending on September 31, 2021, with primary coverage through Starr Surplus Lines Insurance Company and excess coverage with Argonaut and QBE, for total coverage of \$20 million with a total annual premium of \$261,476, as set forth in this Action Item;
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

ACTION ITEM

Board of Governors Meeting, September 23, 2020

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|--|--|
| <input checked="" type="checkbox"/> Contract – New | <input type="checkbox"/> Committee or Board Minutes |
| <input type="checkbox"/> Contract – Amendment of Contract Terms | <input type="checkbox"/> Product Changes |
| <input type="checkbox"/> Contract – Additional Spend | <input type="checkbox"/> Other _____ |

Contract ID	Directors and Officers Liability Insurance STARR SURPLUS LINES INSURANCE COMPANY ARGONAUT INSURANCE COMPANY QBE INSURANCE CORPORATION
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Budgeted Item	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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Procurement Method	<p>This coverage will be purchased through Arthur J. Gallagher and Co., who will serve as agent of record for the policies. Citizens conducted a competitive solicitation for this coverage through Invitation to Negotiate No. 20-0033 for Directors and Officers/Fiduciary Liability Insurance issued on July 7, 2020. While several brokers expressed interest during the questions and answers phase of the ITN, Arthur J Gallagher was the only broker to submit a reply.</p> <p>Citizens determined that negotiating on best terms and conditions with Arthur J Gallagher was in the best interest of Citizens and the state, pursuant to s. 287.057(5), F.S. Arthur J Gallagher provided a summary of its quote requests to 30 carriers. Most of these carriers declined to quote citing various reasons such as level of exposure in Florida and Citizens' line of business. Furthermore, Citizens' understanding is that business insurance carriers do not generally provide multiple quotes for the same risk. Therefore, if an additional broker requested a quote from the same carrier as Arthur J Gallagher, the carrier would likely have declined and indicated that a quote has already been provided to another broker.</p>
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Contract Amount	Policy	Insurance Carrier	Premium
	Directors & Officers (base \$10 million layer)	Starr Surplus Lines Insurance Company	\$172,764.00
	Directors & Officers (excess \$5 million layer from \$10-15 million)	Argonaut Insurance Company	\$51,823.00
	Directors & Officers (excess \$5 million layer from \$15-20 million)	QBE Insurance Corporation	\$36,889.00

ACTION ITEM

Contract Term(s)	<p>The term for all three policies is October 1, 2020 to September 30, 2021.</p> <p>Insuring Company: Starr Surplus Lines Insurance Company</p> <p>Financial Strength: A (Excellent) A.M. Best Rating</p> <p>Financial Size: XV</p> <p>Excess Company: Argonaut Insurance Company (Admitted)</p> <p>Financial Strength: A (Excellent) A.M. Best Rating</p> <p>Financial Size: XIV</p> <p>Excess Company: QBE Insurance Corporation (Admitted)</p> <p>Financial Strength: A (Excellent) A.M. Best Rating</p> <p>Financial Size: XIV</p>
Purpose/Scope	<p>Citizens is requesting approval to purchase Directors and Officers Insurance for a one-year term beginning on October 1, 2020 and ending on September 31, 2021. This coverage provides liability insurance payable to the directors and officers of a company, or to the organization itself, to cover damages or defense costs in the event that such losses are incurred as a result of a lawsuit or alleged wrongful acts while acting in their capacity as directors and officers for the organization. Citizens has purchased Directors and Officers Liability Insurance on an annual basis for more than five years.</p> <p>Directors and Officers Liability Insurance is supplemental to the principal protections against liability for Citizens and its Board members, officers, and employees. The principal protections are statutory immunity and indemnification afforded under Citizens' Plan of Operation. Directors and Officers Liability Insurance reimburses losses and defense costs for covered losses to Citizens, or to covered individuals when such individuals are not indemnified.</p> <p>The proposed policies include a total of \$20 million in coverage. Primary coverage is provided through Starr Surplus Lines Insurance Company with a \$10 million aggregate limit. The next \$5 million of coverage is through Argonaut. The remaining \$5 million of coverage is through QBE Insurance Corporation. The cost for this coverage increased approximately 13% from last year.</p>
Recommendation	<p>Staff proposes that the Board of Governors:</p> <ul style="list-style-type: none">a) Authorize the purchase of Directors and Officers Liability Insurance for a one-year term beginning October 1, 2020 and ending on September 31, 2021, with primary coverage through Starr Surplus Lines Insurance Company and excess coverage with Argonaut and QBE, for total coverage of \$20 million with a total annual premium of \$261,476, as set forth in this Action Item;

ACTION ITEM

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	b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.
CONTACTS	Dan Sumner, General Counsel and Chief Legal Officer